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Foreign Economic Trends and Their Implications for the United States

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PREPARED BY
AMERICAN EMBASSY YAOUNDE

U.S. DEPARTMENT OF COMMERCE
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KEY ECONOMIC INDICATORS
(in millions of U.S. dollars unless otherwise noted)

	1987	1988	1989 (est)	1990 (proj)
Domestic Economy				
Population (millions)	10.2	10.9	11.2	11.5
Population Growth (%)	3.2	3.2	3.2	3.2
GDP, current prices (1)	12,687	11,949	11,230	11,533
% change	-2.8	-8.6	-6.0	0.7
GDP per capita	1,239	1,097	1,003	996
Consumer Price Index (1985=100)	125.0	131.2	133.2	135.2
Production and Employment				
Labor Force (1,000s - est)	4,000	4,040	4,080	4,120
Unemployment (% estimate) (2)			15-20	
Government Operating surplus or deficit as % of GDP (3)	-5.8	-4.2	-2.7	-3.1
Balance of Payments				
Exports FOB (4)	2,073	2,043	1,943	2,057
Imports FOB (4)	2,645	2,324	1,952	2,057
Current account balance	-1,171	-880	-452	-559
Overall balance of payments	-685	-318	-399	-23
Foreign Public Debt	2,381	2,492	3,491	4,382
Scheduled Debt Service	255	236	226	311
Debt Service Ratio (5)	32.1	32.5	21.7	22.8
Foreign Reserves (official)	-160	-223	-331	-259
Average Exchange Rate (x=$100)	300.54	297.85	319	305
U.S. - Cameroon Trade				
U.S. Exports to Cameroon (6)	45.2	31.2	35.8	27.2
U.S. Imports from Cameroon (6)	413.8	219.0	414.7	-
Bilateral Trade Balance	-368.6	187.8	378.9	-
U.S. share of Cameroon exports (%)	20	11	21	-
U.S. share of Cameroon imports (%)	1.7	1.3	1.8	-
U.S. Bilateral Aid (FY)				
Economic	29.3	18.1	32.5	20.0
Military	.78	.30	.30	.30
Principal U.S. Exports (1989):	Flour, machinery, chemicals			
Principal U.S. Imports (1989):	Crude oil, cocoa, coffee, tobacco			

(1) Derived from FCFA figures at average 1989 exchange rate.
(2) 15-20% overall: 30-35% in Yaounde; 40-50% in Douala.
(3) Fiscal year figures (July to June). The 1989 figure of -2.7% is the GRC's target; preliminary indications are that it will be exceeded.
(4) Includes non-factor services.
(5) 1989 and 1990 figures after rescheduling.
(6) U.S. Exports FAS to Cameroon; U.S. Imports Customs Value from Cameroon.

Sources: Government of Cameroon, World Bank, Department of Commerce, IMF, U.S. AID

SUMMARY

Cameroon's economic crisis continued last year, as the government began to move more decisively to cope with the deteriorating situation. GDP tumbled 6 percent in 1989, after falling 8.6 percent the previous year. Unemployment remained very high as well, estimated at 15-20 percent for the country as a whole, 30-35 percent in Yaounde and 40-50 percent in Douala (the two principal urban areas). World prices for Cameroon's chief agricultural exports, coffee and cocoa, declined again in 1989, darkening the country's already gloomy economic picture. The world price for Cameroon's other major export, petroleum, climbed, but the country's production fell.

In response to the crisis, the Government of Cameroon (GRC) is implementing a stringent structural Adjustment Program (SAP) which was developed with the aid of experts from the World Bank and International Monetary Fund (IMF). Under the program, which is now entering a critical stage, the GRC cut the current account deficit in half to approximately 4 percent of GDP and reduced the budget deficit. The government also made strides in opening up and liberalizing the economy. Price controls were lifted on most goods, steps were taken to eliminate or reform inefficient para-public enterprises, and reforms were begun in the government itself to improve management and reduce costs. Much more remains to be done, however, in each of these areas.

The government also began to implement reforms in the critical banking and farm sectors. In the banking industry, reeling from crop loan losses and substantial government withdrawals, four out of Cameroon's 10 banks were closed. Banking rules will be revised to prevent a recurrence of problems. In the farm sector, the government slashed producer prices for export crops (principally cocoa, coffee, and cotton) and is working to reform the country's marketing and extension agency services. Also on a positive note, the government recently promulgated a law allowing the creation of an Industrial Free Zone (IFZ) in Cameroon and expects to issue revisions to the investment and labor codes soon. The government's swift adoption of the IFZ law, a model of clarity, demonstrates a new attitude toward foreign investment.

Opportunities remain in Cameroon for U.S. business. There is a market for U.S. agricultural productions such as flour, and for farm equipment. There are new possibilities for U.S. investment under the IFZ regime, which offers simplified regulations and substantial tax advantages, and in agricultural inputs (e.g., fertilizer), and export marketing as the GRC starts to liberalize the agro-industrial sector.

CURRENT ECONOMIC SITUATION AND TRENDS

Economic Growth: Cameroon enjoyed sustained economic growth from independence in 1960 through 1985. In the 1970s and early 1980s economic growth averaged about 8 percent per year. An important contributor to growth was the country's rich and diverse agricultural base, on which the government placed considerable emphasis. But growth really soared when petroleum production commenced in 1978 from the country's small offshore fields. As a consequence of the economic surge in the 1970s and 1980s, and despite high population growth, GDP per capita was $1,239 in 1987, ranking Cameroon in the World Bank's "middle income" category of developing countries. In economic terms, Cameroon was one of Africa's handful of success stories.

Beginning in 1986, however, the relatively rosy picture darkened. In that year, the collapse of world prices for Cameroon's major export commodities, --coffee, cocoa and petroleum,-- delivered the country a major terms of trade shock. Over three years, from 1986-89, the price of Cameroon's chief exports declined nearly 45 percent. Between 1985 and 1987, the country's export earnings were halved and tax receipts slid sharply. Prices for coffee and cocoa continued to slide in 1989. The depreciation of the U.S. dollar further aggravated the problem. While Cameroon's exports are dollar denominated, the country's currency, the CFA Franc (FCFA; CFA is the acronym for the African Financial Community), is tied to the French Franc at a fixed exchange rate of 50 to 1. The dramatic depreciation of the dollar against the French franc in the mid-1980s resulted in an overvaluation of the FCFA vis-a-vis the dollar and had a substantial negative impact on Cameroon's trade position. The terms of trade shock of the mid-1980s exposed major underlying weaknesses in Cameroon's economy, and the country plunged into an economic crisis.

In 1987, GDP declined by 2.8 percent, in 1988 by 8.6 percent, and in 1989 by a further 6.0 percent. As the shock waves of the crisis rolled through the economy, unemployment became a major problem; for the economy as a whole the unemployment rate is estimated at 15-20 percent. In Yaounde and Douala, the two principal cities in Cameroon, unemployment is estimated at 30-35 percent and 40-50 percent respectively. Investment has fallen as well, dropping an estimated 50 percent since 1986 with the greatest decline coming in public investment. The government budget deficit ballooned as a consequence of the drop in tax receipts; in 1987 the deficit was FCFA 508 billion ($1.6 billion) or 12 percent of GDP. Declining exports, bad crop loans, substantial government withdrawals to cover the budget deficit, and internationally uncompetitive interest rates combined to dry up liquidity in the banking system and threw it into crisis. On one of the few positive notes, inflation remains relatively low and stable, averaging about 2 percent per year.

The government was slow in responding to the crisis. Initially, the GRC, gambling that commodity prices would recover, took little action. Most observers believe that the GRC used money to pay its bills from an off-budget account that consisted of oil revenue. The status of this account, which is maintained by the Presidency, is unknown, but indications are that it is drained.

Structural Adjustment Program (SAP): As the extent and duration of the crisis became clear in 1987-88, the government adopted an austerity program to restore budgetary and economic balance. While the stabilization program was moderately successful, the government, as a consequence of the severity of the crisis, appealed to the IMF and World Bank for assistance. In September 1988, the IMF approved an 18-month stand-by arrangement of SDR 69.525 million (approximately $90 million). In July 1989, the World Bank approved a $150 million adjustment loan, for disbursement in three tranches, in support of the SAP. Assistance has been forthcoming from other organizations as well, including the African Development Bank, which offered a loan of $125 million. In May 1989, the Paris Club agreed to a public sector debt rescheduling. The United States, as part of an initiative by President Bush to assist Africa, forgave $73 million in development loans to Cameroon in January 1990.

The SAP is intended, in the medium term, to reestablish economic growth, to eliminate impediments to business activity, to minimize direct government involvement in the production and distribution network, and to redirect public services toward programs to improve social well-being and general economic productivity. While the specific timetable for Cameroon's SAP is ambitious (and has already slipped behind schedule to a degree), the government has taken the important and politically difficult first strides.

In the government itself, steps have been taken to reduce expenditures dramatically. Hiring is limited, wages are frozen, and promotions are suspended. The retirement age of 55 is rigidly enforced and strong measures were taken to eliminate "ghost" employees from the payrolls. Such actions have reduced the number of government employees from 180,000 to 139,500. Perks for public sector employees such as generous housing and holiday allowances are also being examined and in some cases eliminated, and the government is in the process of overhauling its ministries. While the GRC's efforts at cost containment have been relatively successful, measures on the revenue side have meant that fiscal targets under the SAP have not been met. In response, the government is introducing new taxes, reforming tax administration and cracking down on customs fraud. (For detailed budget information, see next section.)

In the para-public sector, the government is moving slowly to eliminate, privatize, or rehabilitate the approximately 150 state enterprises. With a review of the parastatals partially completed, the GRC expects to privatize 12, eliminate 15, rehabilitate 30, and merge 4. Those enterprises that remain under government control are signing performance contracts designed to improve efficiency. As part of the program, wages are being cut and layoffs have begun at some parastatals. In other areas, the government is moving to reform the banking and farm sectors both devastated by the economic crisis (see Sectoral Review on page 8).

In other structural reforms, the government is moving to reduce restrictions burdening commerce. Quantitative restrictions on many imports have been lifted and more are slated to go in January 1991. Import licensing has been abolished except for those goods subject to quantitative controls. Price controls, formerly applied to all goods deemed by the government to be critical, have been reduced dramatically in number. Among the goods still under control are petroleum products, foods such as flour, rice, and sugar, and electricity. Internal controls on movement have been reduced somewhat, making travel and commerce in Cameroon easier as well.

Budget: The government reduced its budget deficit for FY 1988-89 (fiscal year is July 1 to June 30) to 4.2 percent of GDP. Although lower than the 5.8 percent deficit recorded in the previous year, it was higher than expected due to shortfalls in non-oil tax revenue stemming, in part, from customs fraud, contraband, and inefficient tax collection. The government has been more successful on the expenditure control side. The GRC has undertaken budget reductions that are especially ambitious given that no serious attempt at systematic budgetary control had been made for several years. A 17 percent drop in expenditure from 1988 levels was achieved as a result of such measures as a mandatory retirement age, civil servant wage freeze, and benefit cuts (see section on structural adjustment on page 5).

The GRC froze the FY 1989-90 budget at its 1988-89 level of FCFA 600 billion ($1,892 million). To achieve this target, the government will rely on reduced public expenditure and increased revenue collection. Societe Generale de Surveillance (SGS), a Swiss firm, will continue to assist Cameroon's customs officials by verifying the accuracy of customs declarations in terms of quality, quantity, and price. The legal basis for many tax exemptions will be tightened as part of the new investment code. The government hopes to limit the budget deficit to not more than 2.7 percent of GDP in FY 1989-90, though estimates suggest that the deficit will be higher.

Although the overall budget level is the same as last year, its composition has changed. Cameroon's budget is divided into

investment and recurrent accounts. The public investment budget, to meet the SAP goals of eliminating the deficit and limiting borrowing, will fall to FCFA 175 billion ($552 million), down from FCFA 225 billion ($709 million) in the previous year. Monitoring of the investment program was improved by the creation of a Direction Generale des Grands Travaux, which will oversee the conception, contracting, and execution of projects.

The total recurrent budget is FCFA 425 billion ($1,340 million), up from FCFA 375 billion ($1,183 million) in FY 1988-89. Within recurrent expenditure, priority was accorded to national education (18 percent), defense (12 percent), public health (6 percent), and agriculture (4.2 percent). Other areas of concentration included territorial administration, public works and transport, and town planning and housing, which together received 12.3 percent of the recurrent budget.

Balance of Payments and Debt: The overall balance of payments for 1989 was expected to be in deficit by $399 million, a performance somewhat worse than in 1988 when the deficit was $318 million. Despite this, the picture in 1989 remained substantially brighter than in 1987 when the deficit was $685 million. As recently as 1986, Cameroon ran a surplus of $176 million. Traditionally, a healthy capital account assured an overall balance-of-payments surplus. In recent years, however, declining oil revenue (which was used to fill external accounts) and a drop in capital inflows reversed the trend. The most significant development last year was the dramatic improvement in the current account, where fewer imports and a jump in non-oil exports combined to overcome declining petroleum revenues to boost Cameroon's trade surplus threefold. The overall deficit was financed largely by the May 1989, Paris Club rescheduling of Cameroon's external debt. In FY 1988-89 Cameroon's total external debt rose to FCFA 1,436 billion ($4,530 million), or approximately 43 percent of GDP.

IFZ and Investment/Labor Code Revisions: In one of the most encouraging developments of 1989, the GRC moved with startling speed to lay the groundwork for creation of an Industrial Free Zone (IFZ, or free trade zone). President Biya formally promulgated the law under which the zone will operate in January 1990. The law, drafted with the assistance of the Overseas Private Investment Corporation (OPIC) and the U.S. Agency for International Development (AID), is intended to allow Cameroon to develop export industries that are competitive in the international market.

Included in the package of incentives for IFZ investors are: 1. no or low tariffs on imports of primary, intermediate, and capital goods used in the production of exports; 2. tax holidays and other tax advantages; 3. tax free transfer or dividends and of original

foreign investment; and 4. reductions in legal and regulatory burdens including liberalized application of the labor code. Most signi- ficantly, the GRC will be creating a "one stop shop" to process applications for the zone. Under the law, all applications must be acted on within 30 days. In other measures to improve Cameroon's attractiveness to foreign investors, the government is in the midst of revising the currently burdensome investment and labor codes, as well as its visa requirements. Although not finished, the initial work is promising. The government hopes to issue the new codes sometime this year.

SECTORAL REVIEW

Forestry: The forestry sector's considerable potential for increased production and contribution to government revenue has yet to be realized, with only about 40 percent of the country's forest resources currently being exploited. The GRC has completed a Tropical Forest Action Plan with the assistance of the Food and Agriculture Organization (FAO) but has not yet translated it into a set of regulations for the management and exploitation of forest resources. Existing government regulations requiring 60 percent of wood exploitation to be transformed into semifinished products encouraged wasteful exploitation of forest resources and lower export revenues for the sector. Major reforms of the wood processing industry need to be undertaken to realize the potential of this sector.

Agriculture: Agriculture remains very important to the Cameroonian economy, employing 70 percent of the labor force. After experiencing strong growth throughout the 1970s (averaging 5 percent per annum), the sector has stagnated since 1982. Weak commodity prices, an overvalued FCFA, dumping and subsidizing of food exports from other countries, and high domestic labor and intermediate costs in Cameroon have all disadvantaged agricultural production for export. Institutionally, the sector was constrained by excessive government interference in the administration of cooperatives in the marketing of export crops as well as by poor management of farm input and extension service delivery systems.

As the petroleum sector becomes less significant as a source of export revenue, a productive agricultural sector becomes even more important. Special attention will be given to the recovery and diversification of agricultural exports. Measures taken or planned include steps to liberalize progressively trade in the principal export crops (coffee, cocoa, and cotton) to bring their production in closer touch with the realities of the world marketplace. Subsidies on inputs such as fertilizer are being phased out, and their distribution systems privatized. As world prices for primary products fall, the government is implementing pricing systems that will reflect world price fluctuations and

incentives to produce. The restructuring of ONCOB, the National Produce Marketing Board, which deal with coffee and cocoa), and SODECOTON (the marketing parastatal for cotton) form an important part of this overall strategy. Their operating and marketing costs have been reduced, and their roles will be reexamined to allow the private sector to take more responsibility for crop marketing.

Banking: Banks in Cameroon suffered significantly in the general downturn of the economy. Government deposits had been their primary source of working capital, and the GRC's drawing down of deposits to fend off the crisis left banks with a severe liquidity problem. Banks in Cameroon have never had a particularly deep deposit base, having depended on government and international business deposits rather than encouraging small individual depositors, many of whom rely instead on credit unions or the "tontine" system, a network of informal savings and loan institutions. The banks' situation was exacerbated by large nonperforming loan portfolios, the legacy of crop loan losses, and other bad loans that were granted for political, not economic, reasons.

Difficulties in the banking sector were squarely confronted in 1989. Recognizing that a shaky banking sector presents a major obstacle to the resumption of normal economic activity, the government conducted an external audit of all banks in Cameroon. On the basis of these results, 4 of the country's 10 banks were closed, accounting for approximately 36 percent of the banking system's total balance sheet and 41 percent of its nonperforming assets. Cameroonian Development Bank, Cameroon Bank, and Banque Paribas-Cameroon were liquidated, and the fourth, Societe Camerounaise de Banque (SCB), reopened as a subsidiary of France's Credit Lyonnais with the sound items from SCB's balance sheet. SCB's non-performing assets were transferred to a new Cameroonian Claims Collection Corporation. Banking rules will be rewritten, and the remaining six banks will be internally reorganized to strengthen their equity and streamline staff and operations.

An interesting recent development in Cameroonian banking was the creation of a locally, privately held bank, the Caisse Commune d'Epargne et d'Investissement (CCEI). Unlike most banks, which engage chiefly in trade finance, CCFI intends to concentrate in the financing of productive investment. It will also play a role in financing the 1990 coffee campaign.

Cameroon is a member of the Banque des Etats de l'Afrique Centrale (BEAC), the region's central bank.

Hydrocarbons: Oil was the major impetus of growth and a key generator of export revenues and financial resources for the

economy in the early and mid-1980s. Lower world oil prices since 1985 and reduced production have sharply reduced the level of petroleum income. Petroleum revenue dropped off again slightly in 1989 (as a consequence of declining production), after falling 18 percent in 1988 and 45 percent in 1987. Cameroon's oil production is expected to continue to decline, and in the absence of new discoveries, reserves will be depleted by the end of the century. Although the existence of untapped petroleum resources is possible, recent exploration efforts have been minimal, as the government reconsiders its system of incentives. To date, compared to neighboring oil producers, Cameroon's legislation and taxation policy have not encouraged oil companies to search for new reserves.

The GRC created the National Hydrocarbons Corporation (SNH) in 1980 to ensure that the exploitation of the country's oil and gas resources would be accomplished according to its own national priorities. SNH holds equity shares in local petroleum companies in partnership with international oil companies, assumes shares of production, and markets the country's crude oil. Major international oil companies involved in Cameroon's offshore petroleum exploration and develop- ment efforts include Pecten (U.S. Shell), Total, and Elf-Serepca.

Other minerals: Cameroon has deposits of iron ore, bauxite, limestone, rutile, tin, gold, and uranium. The production feasibility has not been determined for some of these resources. Cameroon is developing a new mining concession policy that will require that exploitation rights be granted through tenders, in the hope that this will lead to private sector development of proven mineral reserves while ensuring that the government earns royalties.

Manufacturing: Cameroon has a relatively large and varied manufacturing sector, geared mainly to the local market. Leading industries include food processing, beverages, tobacco, textiles, and shoes. From 1980-85, the manufacturing sector (excluding oil) grew by over 13 percent annually, and nearly doubled its share of GDP, from 7.9 percent to 14.7 percent. In 1987 and 1988, manufacturing contracted by 4.7 percent and 8.6 percent respectively, mostly because of depressed domestic demand as a consequence of the economic crisis.

Small and medium-sized enterprises make up most of the Cameroonian private sector in manufacturing, while the large and dominant firms tend to be government or foreign-owned. The government participates, through the Societe Nationale d'Investissements (SNI), in about 60 companies and most economic sectors. Reexamination of this participation under the SAP (as discussed above) will lead to the liquidation or privatization of some and the restructuring of others.

IMPLICATIONS FOR THE UNITED STATES

Since independence, Cameroon has been a stable, basically market-oriented country. Although the economic crisis has meant a dramatic slowdown in business activity, there remain prospects for U.S. exporters and investors. American products, although they must compete with European and Japanese goods, are seen in a favorable light. Currently, a reasonably wide range of U.S. goods, in particular foods and business equipment, are available. Overall, there are more than 50 U.S. firms represented in Cameroon, either directly or through agents or distributors. Some of the U.S. companies operate through European subsidiaries.

As in recent years, some of the best opportunities for U.S. business are in the agricultural and food products area. The principal U.S. export to Cameroon in the first nine months of 1989 was flour. Given government emphasis on agriculture, and American competitiveness in this sector, there are markets for farm equipment and supplies. Cameroon's substantial forests also offer opportunities for U.S. companies involved in that sector. There is a growing need for communications equipment, business equipment, and computers in Cameroon, offering possibilities for American firms manufacturing or offering services in these fields. Finally, opportunities exist for U.S. companies in the fishing industry.

U.S. firms considering investment in Cameroon should give special consideration to the possibilities created by the new IFZ law. The country's central location on the continent, its well-managed port in Douala, and the nation's policy of official bilingualism (English and French) are important assets. Specific sectors in which Cameroon appears to have a comparative advantage include agricultural commodities and their processing. Given the liberalized labor regime that applies to the zone, more traditional IFZ activities, such as textile manufacture, are also worth exploring. Other opportunities for U.S. investment will be created in the areas or agricultural inputs (such as fertilizer) and crop marketing as the GRC begins to liberalize and privatize these sectors.

Success in Cameroon, as elsewhere, depends on presistence, willingness to adapt to local conditions, and a good product. Frequently, difficulties encountered by U.S. businesses have resulted from lack of market research or insufficiently detailed agreements with Cameroonian partners. Also, the importance of personal contacts cannot be overemphasized, and patience is necessary when working with the local bureaucracy. Joint ventures with Cameroonian partners can be helpful in overcoming difficulties caused by local practices.